

Frequently Asked Questions About California's Personal Income Taxes

California
Franchise
Tax
Board

The image shows two overlapping California tax forms. The top form is Form 540EZ, titled "California Resident Income Tax Return For Single and Joint Filers with No Dependents 1999". It includes fields for "Step 1 Name and Address" (first name, last name, address, city/town/post office, state, ZIP code, and P.O. box/rural route) and "Step 2 Filing Status" (Single, Married filing separate return, Head of household, Qualifying widow(er)). The bottom form is Form 540A, titled "California Resident Income Tax Return 1999". It includes fields for "Step 1 Name and Address" (first name, last name, address, city/town/post office, state, ZIP code, and P.O. box/rural route), "Step 1a SSN" (Your social security number, Spouse's social security number), "Step 2 Filing Status" (Single, Married filing separate return, Head of household, Qualifying widow(er)), and "Step 3 Dependents" (Parent, Spouse, Child, Dependent child, Dependent adult). Both forms have a "Total" line at the bottom right.

We know that income taxes can be confusing and complex. In this publication we have included sections on the questions we're asked most often, common Franchise Tax Board notices, and information about the California Taxpayers' Bill of Rights.

The Questions Taxpayers Ask Most Often

1. Why did I receive a Head of Household Audit Letter from the Franchise Tax Board (FTB) asking about my head of household filing status?

The head of household filing status contains many complex legal issues that are often misinterpreted and, as a result, individuals frequently claim this status in error. We send head of household filers an audit letter to determine their eligibility. And we often follow-up with audit letters in subsequent years to verify their continued eligibility.

If you need more information regarding the head of household filing status, you may order FTB Publication 1540, Tax Information for Head of Household. If you live within the United States you can order this publication by calling (800) 555-4005. From outside the United States, call (916) 845-6600 (not toll-free). FTB 1540 is also available on our Internet site: www.ftb.ca.gov

2. I just received a Form 1099G (or 1099INT) from FTB. What does this mean?

We send Form 1099G each year to taxpayers as a reminder that the California income tax refund they received in the prior year may be taxable by the Internal Revenue Service. Form 1099G includes the dollar amount and the year of the tax refund.

Some taxpayers receive Form 1099INT from FTB. This form shows the amount of interest that the taxpayer received from FTB in the prior calendar year.

We also provide the information from both Form 1099G and 1099INT to the IRS.

3. I reported incorrect information on the California income tax return I filed. How can I inform FTB?

You can correct your California income tax return by filing Form 540X, Amended Individual Income Tax Return. To prevent delays in processing, be sure you enter the amounts shown on your original (or previously amended) return in Column A. If your previously filed return was examined and corrected by FTB, enter the corrected amounts in Column A. Moreover, you must file an amended California return to report federal income tax changes if the changes affect the amount of your California tax.

For more information about federal changes, see Question 8.

4. I understand that FTB has an Offer In Compromise Program. Exactly what does this mean?

An Offer In Compromise may be submitted by a taxpayer to pay less than the amount due on a non-disputed final tax liability. If we accept the offer, the taxpayer is granted relief from further obligation to pay the remaining tax. To submit an offer, you must complete Form FTB 4905PIT (Personal Income Tax) or Form 4905BCT (Bank and Corporation Tax) and supply all substantiating documentation.

Generally, we accept an offer in compromise when the amount offered represents the most FTB can expect to collect within a reasonable period of time.

Although each case is evaluated based on its own unique set of facts and circumstances, the following factors are given strong consideration in evaluating each case:

- Equity in assets
- Present and future income
- Present and future expenses
- Collectability and ability to pay
- Potential for changed circumstances

5. Why did FTB send my tax refund to another agency?

Before we send taxpayers their refunds, we are required by law to check for unresolved debts that taxpayers may have with FTB, or other state, city, or county agencies. If an individual has a past-due account with any participating agency, we decrease the state income tax refund by the amount owed and send the money to the agency. The taxpayer receives an offset letter from FTB that provides the name and phone number of the agency receiving the money. Taxpayers who receive an offset letter should direct their questions to the agency that received the money. We have no jurisdiction over the money once it has left our department.

6. Why is FTB collecting for another government agency?

Legislation allows the following entities to refer delinquent accounts to FTB for collection:

- County district attorneys – delinquent child support payments.
 - Superior, municipal, or justice courts in California – certain delinquent fines, penalties, forfeitures and orders owed to a county for criminal offenses. Also included are restitution fines and orders.
 - Department of Motor Vehicles – delinquent vehicle registrations and license fees, use taxes, and parking violations.
 - Department of Industrial Relations (DIR) – delinquent assessments issued by the DIR for violations of labor standards and health/safety laws.
 - Student Aid Commission – delinquent student loans.
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7. I received a letter from FTB saying that I have to file a California income tax return. Why did I get this letter?

We sent this letter because we could not locate a personal income tax return for you, yet information we received from other sources indicated that a tax return should have been filed. The letter requests that you (1) provide a copy of the return if it was already filed, or (2) write an explanation as to why no return needs to be filed, or (3) file a return. If we do not receive a response within 30 days of the letter, we may issue a Notice of Proposed Assessment based on the income information we have.

We receive information from a variety of sources such as the IRS, financial institutions, occupational licensing boards, city business tax departments, partnerships, the State Board of Equalization, and the Employment Development Department. This information can include things such as the amount of income you earned during a specific tax year, whether you held an active professional license, whether you reported "sales," and the amount of mortgage interest you paid. We match this information against our files to see if we have a record of your tax return for that year. If we do not have a record of your return being filed, we send a letter to you requesting that you file a return.

8. What is a Revenue Agent's Report?

A revenue agent's report contains the results of an audit conducted by the IRS. Under our information sharing agreement, the IRS sends us a copy of the report.

The IRS also sends us information regarding adjustments made through their Underreporter program. This information includes adjustments made to wages, dividend, interest, and other types of income reported on Form 1099.

Even though the IRS shares information with us, taxpayers are required by law to report to us any federal changes or corrections that result in an additional California tax liability. These changes or corrections may include math errors, credit adjustments, penalties, or taxes as well as adjustments to income or itemized deductions. The law requires taxpayers to report federal changes to us within six months of the final federal determination. If the change or correction results in a California overassessment (i.e., refund), the taxpayer has the later of two years from the final federal determination date or the normal California statutory period of limitations to file a refund claim with us.

By law, if a taxpayer notifies us of the changes made by the IRS, we may issue a proposed deficiency assessment up to two years from the date we are notified of those changes. That notification of a change or correction by a taxpayer or the IRS must be sufficiently detailed to allow computation of a resulting tax change. If the taxpayer or the IRS notifies us after the required six months, we may issue a proposed deficiency assessment up to four years from the date of the notification. When a taxpayer or the IRS fails to inform us of federal

changes, there is no time limit to which we may issue a proposed deficiency assessment.

Taxpayers needing more information on tax adjustments and notification responsibilities may order FTB Publication 1008, Federal Tax Adjustments and Your Notification Responsibilities to California. To order this publication, write to TAX FORMS REQUEST UNIT, FRANCHISE TAX BOARD, PO BOX 307, RANCHO CORDOVA CA 95741-0307. The publication is also available on FTB's website at: www.ftb.ca.gov.

9. May I pay off my debt to FTB in installments?

If you have a financial hardship and cannot pay the tax in full, you may be eligible to make monthly installment payments. If we approve your request, we are agreeing to let you pay the tax owed in monthly installments. In return, you must agree to make monthly payments through electronic funds transfer (EFT). EFT allows you to automatically make payments to us by a direct transfer of funds from your bank account.

By requesting an installment agreement, you also agree to meet all future tax liabilities. This means that you must have adequate withholding or estimated tax payments so that the tax liability for future years is paid in full when you timely file returns. If you do not make payments on time or have an outstanding past due amount in a future year, you will be in default on the agreement and we may take enforcement actions to collect the entire amount you owe.

If you are employed, you should check the Forms W-4 or DE-4 on file with your employers to be sure that the withholding rate is correct. If you have income from other sources, you should be sure that the estimate payments are adequate.

To request monthly installment payments, complete an Installment Agreement Request (form FTB 3567). This form can be obtained from a variety of sources including: our automated telephone service (800) 338-0505 code 949, the Installment Agreement Interactive Voice Response System (916) 845-4470 or our Internet site (www.ftb.ca.gov). Mail the completed request to FRANCHISE TAX BOARD, PO BOX 942867, SACRAMENTO CA 94267-0011. You should receive a response from us within 30 days.

Common Franchise Tax Board Notices

We send notices when we determine that a tax return may not reflect the correct amount of tax. The following list describes the most common notices that we send to California taxpayers.

NOTICES OF CHANGES TO TAX LIABILITY

- **Return Information Notice (FTB 5818B)** We send about one million of these notices to taxpayers annually. The notices inform taxpayers that there is an error on their tax return. Common mistakes include mathematical errors, incorrect use of tax tables or schedules, and the omission of required

information. Taxpayers who do not agree with the notice should contact us immediately.

– **Notice of Proposed Assessment (FTB 5830-M-PIT)**

This notice proposes to assess additional tax as a result of our examination of taxpayers' returns. Taxpayers agreeing with the changes should immediately pay the amount due. Those who disagree with our proposed assessment have 60 days from the date the notice was mailed to file a protest. Protest procedures are located on the back of the notice.

– **Notice of Proposed Assessment — Tax Return Not Filed (FTB 5820-M or 5820)**

We send this notice to taxpayers who do not respond to our request that they either file a tax return or explain why they are not required to file.

This proposed assessment includes tax, penalties for delinquent filing, if any, plus failure to file upon demand, a filing enforcement fee, and interest. We base the assessment on information we receive from outside sources such as the IRS, employers, financial institutions, occupational licensing boards, city business tax departments, partnerships, the State Board of Equalization, and Employment Development Department. Taxpayers who disagree with our proposed assessment have 60 days from the date the notice was mailed to file a protest. Protest procedures are located on the back of the notice.

COLLECTION (BILLING) NOTICES

Taxpayers enter our billing cycle when a balance due on their account goes unpaid. The first phase of billings is referred to as the voluntary cycle. In this cycle, taxpayers are notified of the liability and encouraged to pay (or make arrangements to pay) the liability.

Interest continues to accrue and additional penalties may be assessed if the balance is not paid following the first notice.

Failure to respond during the voluntary cycle causes the account to move into the involuntary cycle. In this cycle, enforcement actions may be taken to assure collection of the past due amount. Notices are sent to the taxpayers' banks, employers, and appropriate county offices. Each notice includes a copy to be provided to the taxpayer/debtor.

Notices include:

– **Order to Withhold (FTB 2900 PIT)**

This notice attaches funds in bank accounts, stock plans, vacation trust funds, etc. It requires that a hold be placed on the accounts for 10 working days. The holding period allows taxpayers time to resolve their account problem with us before the funds are forwarded to pay the tax liability.

– **Earnings Withholding Order for Taxes (FTB 2905)**

This notice is sent to taxpayers' employers and is an order to garnish wages. It requires the employers to withhold a maximum of 25% of taxpayers' disposable earnings.

– **Tax Lien Notice (FTB 4913)**

We send this notice to taxpayers to alert them that we have filed a lien against all real property under the taxpayer's name and social security number in a specific county.

Fees Charged to Individuals

California Revenue and Taxation Code 19254 requires us to impose fees against individuals and corporations who require collection or enforcement action to resolve filing and payment delinquencies. This law allows us to recover the costs of collection and enforcement actions directly from the individuals and corporations who cause us to incur these costs. Only those taxpayers who do not resolve their delinquencies after notification will be charged the fee.

We impose a collection fee on collection accounts when taxpayers fail to fully pay taxes, penalties, and interest when due.

We impose a filing enforcement cost recovery fee on collection accounts when taxpayers fail to file an income tax return by the date indicated on the written request.

Taxpayers' Bill of Rights

In 1988, the California Taxpayers' Bill of Rights was signed into law. The law codified many existing Franchise Tax Board procedures, established a Taxpayer Advocate, and clarified your rights as a taxpayer and the obligations of the FTB. The California Legislature subsequently enacted the Taxpayer Bill of Rights 2 in 1997 and the Taxpayer Bill of Rights Acts of 1999. This new legislation provides additional protection of your rights as a California taxpayer.

If you would like more information about your rights as a California taxpayer, the following publications are available:

FTB Pub. 4058	California Taxpayers' Bill of Rights
FTB Pub. 4058C	California Taxpayers' Bill of Rights — A Comprehensive Guide
FTB Pub. 4063	Taxpayers' Bill of Rights 2, A Guide for Taxpayers
FTB Pub. 4064	Highlights of California Taxpayers' Bill of Rights Act of 1999

You can order the above publications by writing to:

TAX FORMS REQUEST UNIT
PO BOX 307
RANCHO CORDOVA CA 95741-0307

Or calling:

From within the United States (800) 852-5711
From outside the United States (916) 845-6500
(not toll-free)

INTERNET ACCESS

The above publications are also available on FTB's website at www.ftb.ca.gov.